



THE BIG 5 FALSE BAY MUNICIPALITY

**Annual Financial Statements
for the year ended 30 June 2014**

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

General Information

Mayoral committee

Mayor

CC Gumede

Councillors

ZM Mokeona

MS Msane

NR Bukhosini

CT Khumalo

FZ Zulu

N Thethwayo

Grading of local authority

Grade 1 - Low capacity

Accounting Officer

AM Dhlomo

Chief Finance Officer (CFO)

NN Shandu

Business address

163 Zebra Street

Hluhluwe

3960

Postal address

P.O BOX 89

Hluhluwe

3960

Bankers

First National Bank of SA

Auditors

The Auditor General South Africa

Private Bag X9034

3200

Attorneys

Duvenage Incorporated

Old Main Road

Hluhluwe

3960

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Index	Page
Accounting Officer's Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	8
Accounting Policies	11 - 22
Notes to the Annual Financial Statements	23 - 39

The following supplementary information does not form part of the annual financial statements and is unaudited:

Appendixes:

Appendix A: Schedule of External loans

Appendix B: Analysis of Property, Plant and Equipment

Appendix C: Segmental analysis of Property, Plant and Equipment

Appendix D: Segmental Statement of Financial Performance

Appendix E(1): Actual versus Budget (Revenue and Expenditure)

Appendix F: Comparison of Budget and Actual Amounts

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Index

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
DBSA	Development Bank of South Africa
INEG	Integrated National Electrification Grant

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Officer's Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and is given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

AM Dhlomo
Accounting Officer

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013
Assets			
Current Assets			
Receivables from exchange transactions	4	90,753	419,347
Receivables from non-exchange transactions	5	4,540,689	-
VAT receivable	6	889,504	1,310,394
Consumer debtors	7	9,848,325	7,209,915
Cash, cash equivalents and overdraft	8	558,094	592,873
		15,927,365	9,532,529
Non-Current Assets			
Property, plant and equipment	2	106,295,847	100,675,022
Intangible assets	3	90,423	173,499
		106,386,270	100,848,521
Total Assets		122,313,635	110,381,050
Liabilities			
Current Liabilities			
Finance lease obligation	9	548,826	435,131
Payables from exchange transactions	12	10,098,823	11,197,597
Payables from non-exchange transactions	13	213,115	77,873
Unspent conditional grants and receipts	10	1,549,908	-
Bank overdraft	8	1,912,628	-
		14,323,300	11,710,601
Non-Current Liabilities			
Finance lease obligation	9	244,076	792,155
Provisions	11	4,737,925	4,366,751
		4,982,001	5,158,906
Total Liabilities		19,305,301	16,869,507
Net Assets		103,008,334	93,511,543
Accumulated surplus		103,008,334	93,511,543

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013
Revenue			
Revenue from exchange transactions			
Service charges	16	1,368,236	1,077,816
Rental of facilities and equipment		70,921	79,056
Other income		147,886	197,764
Interest received - investment		376,773	178,241
Total revenue from exchange transactions		1,963,816	1,532,877
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	15	9,109,533	6,525,214
Property rates - penalties imposed	15	865,823	846,414
Transfer revenue			
Government grants and subsidies		30,020,092	30,163,024
Fines		9,963,275	29,900
Total revenue from non-exchange transactions		49,958,723	37,564,552
Expenditure			
Contracted services	26	881,889	902,843
Conditional Grants (operational)	27	3,857,172	4,374,576
Debt impairment	21	6,387,641	2,248,782
Depreciation and amortisation	23	3,241,550	3,232,999
Employee related costs	19	12,578,040	9,813,874
Finance costs	24	608,966	404,659
Impairment loss		123	69,859
Remuneration of councillors	20	1,707,472	1,416,371
Repairs and maintenance		133,150	168,631
General Expenses	18	13,029,748	11,076,480
Total expenditure		42,425,751	33,709,074
Surplus for the year		9,496,788	5,388,355

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	88,053,088	88,053,088
Adjustments		
Correction of errors	70,100	70,100
Balance at 01 July 2012 as restated	88,123,188	88,123,188
Changes in net assets		
Restated surplus for the year	5,388,355	5,388,355
Total changes	5,388,355	5,388,355
Balance at 01 July 2013	93,511,546	93,511,546
Changes in net assets		
Surplus for the year	9,496,788	9,496,788
Total changes	9,496,788	9,496,788
Balance at 30 June 2014	103,008,334	103,008,334

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
Cash flows from operating activities			
Receipts			
Cash receipts from ratepayers, government grants and other		44,366,667	35,826,465
Interest income		376,773	178,241
Payments			
Cash paid to suppliers and employees		(38,400,972)	(23,357,899)
Finance costs		(608,966)	(404,659)
		(39,009,938)	(23,762,558)
Total receipts		44,743,440	36,004,706
Total payments		(39,009,938)	(23,762,558)
Net cash flows from operating activities	28	5,733,502	12,242,148
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(8,791,333)	(10,694,168)
Purchase of other intangible assets	3	(5,100)	(72,554)
Net cash flows from investing activities		(8,796,433)	(10,766,722)
Cash flows from financing activities			
Movement in Unspent conditional Grant		1,549,908	(3,499,024)
Movement in finance leases		(434,384)	1,227,286
Net cash flows from financing activities		1,115,524	(2,271,738)
Net increase/(decrease) in cash and cash equivalents		(1,947,407)	(796,312)
Cash and cash equivalents at the beginning of the year		592,873	1,389,185
Cash and cash equivalents at the end of the year	8	(1,354,534)	592,873

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1,303,000	169,000	1,472,000	1,368,236	(103,764)	Appendix F
Rental of facilities and equipment	100,000	-	100,000	70,921	(29,079)	Appendix F
Other income	200,000	(100,000)	100,000	147,886	47,886	Appendix F
Interest received - investment	200,000	(100,000)	100,000	376,773	276,773	Appendix F
Total revenue from exchange transactions	1,803,000	(31,000)	1,772,000	1,963,816	191,816	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	6,829,000	2,330,000	9,159,000	9,109,533	(49,467)	Appendix F
Property rates - penalties imposed	700,000	-	700,000	865,823	165,823	Appendix F
Government grants and subsidies	25,645,000	(5,000,000)	20,645,000	30,020,092	9,375,092	Appendix F
Transfer revenue						
Fines	3,600,000	(1,750,000)	1,850,000	9,963,275	8,113,275	Appendix F
Sale on property, plant and equipment	4,200,000	(400,000)	3,800,000	-	(3,800,000)	Appendix F
Total revenue from non-exchange transactions	40,974,000	(4,820,000)	36,154,000	49,958,723	13,804,723	
'Total revenue from exchange transactions'	1,803,000	(31,000)	1,772,000	1,963,816	191,816	Appendix F
'Total revenue from non-exchange transactions'	40,974,000	(4,820,000)	36,154,000	49,958,723	13,804,723	Appendix F
Total revenue	42,777,000	(4,851,000)	37,926,000	51,922,539	13,996,539	
Expenditure						
Employee related costs	(14,333,000)	534,000	(13,799,000)	(12,578,040)	1,220,960	Appendix F
Remuneration of councillors	(1,646,000)	(12,000)	(1,658,000)	(1,707,472)	(49,472)	Appendix F
Depreciation and amortisation	(3,000,000)	-	(3,000,000)	(3,241,550)	(241,550)	Appendix F
Impairment loss	-	-	-	(123)	(123)	Appendix F
Finance costs	(300,000)	189,000	(111,000)	(608,966)	(497,966)	Appendix F
Debt impairment	(3,500,000)	-	(3,500,000)	(6,387,641)	(2,887,641)	Appendix F
Repairs and maintenance	(1,350,000)	300,000	(1,050,000)	(133,150)	916,850	Appendix F
Contracted Services	(11,272,000)	4,730,000	(6,542,000)	(881,889)	5,660,111	Appendix F
Conditional Grant (operational)	-	-	-	(3,857,172)	(3,857,172)	Appendix F
General Expenses	(7,115,000)	(1,050,000)	(8,165,000)	(13,029,748)	(4,864,748)	Appendix F
Total expenditure	(42,516,000)	4,691,000	(37,825,000)	(42,425,751)	(4,600,751)	
	261,000	(160,000)	101,000	9,496,788	9,395,788	Appendix F
	-	-	-	-	-	
Surplus for the year	261,000	(160,000)	101,000	9,496,788	9,395,788	

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Receivables from exchange transactions	1,154,000	-	1,154,000	90,753	(1,063,247)	Appendix F
Receivables from non-exchange transactions	-	-	-	4,540,689	4,540,689	
VAT receivable	-	-	-	889,504	889,504	Appendix F
Consumer debtors	5,800,000	1,224,000	7,024,000	9,848,325	2,824,325	Appendix F
Cash, cash equivalents and overdraft	2,416,000	(643,000)	1,773,000	558,094	(1,214,906)	Appendix F
	9,370,000	581,000	9,951,000	15,927,365	5,976,365	
Non-Current Assets						
Property, plant and equipment	102,666,000	6,109,000	108,775,000	106,295,847	(2,479,153)	Appendix F
Intangible assets	257,000	(84,000)	173,000	90,423	(82,577)	Appendix F
	102,923,000	6,025,000	108,948,000	106,386,270	(2,561,730)	
Non-Current Assets	9,370,000	581,000	9,951,000	15,927,365	5,976,365	Appendix F
Current Assets	102,923,000	6,025,000	108,948,000	106,386,270	(2,561,730)	Appendix F
Total Assets	112,293,000	6,606,000	118,899,000	122,313,635	3,414,635	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	-	548,826	548,826	Appendix F
Payables from exchange transactions	4,806,000	6,540,000	11,346,000	10,098,823	(1,247,177)	Appendix F
Taxes and transfers payable (non-exchange)	-	-	-	213,115	213,115	
Unspent conditional grants and receipts	-	-	-	1,549,908	1,549,908	Appendix F
Provisions	2,309,000	(1,938,000)	371,000	-	(371,000)	Appendix F
Bank overdraft	-	-	-	1,912,628	1,912,628	Appendix F
	7,115,000	4,602,000	11,717,000	14,323,300	2,606,300	
Non-Current Liabilities						
Finance lease obligation	-	-	-	244,076	244,076	Appendix F
Provisions	2,283,000	1,713,000	3,996,000	4,737,925	741,925	Appendix F
	2,283,000	1,713,000	3,996,000	4,982,001	986,001	
Total Liabilities	9,398,000	6,315,000	15,713,000	19,305,301	3,592,301	
Assets	112,293,000	6,606,000	118,899,000	122,313,635	3,414,635	Appendix F
Liabilities	(9,398,000)	(6,315,000)	(15,713,000)	(19,305,301)	(3,592,301)	Appendix F
Net Assets	102,895,000	291,000	103,186,000	103,008,334	(177,666)	

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1. Basis of presentation

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

GRAP 1 Presentation of Financial Statements

GRAP 2 Cash Flow Statement

GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors

GRAP 5 Borrowing Costs

GRAP 9 Revenue from Exchange Transactions

GRAP 11 Construction Contracts

GRAP 13 Leases

GRAP 14 Events After the Reporting Date

GRAP 17 Property, Plant and Equipment

GRAP 19 Provisions, Contingent Liabilities and Contingent Assets

GRAP 102 Intangible Assets

GRAP 21 Impairment of Non-Cash-generating-assets

GRAP 23 Revenue from Non-Exchange Transactions

GRAP 24 Presentation of Budget Information

GRAP 26 Impairment of Cash-generating-assets

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 11 - Provisions.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

VAT

VAT Receivable is the Net Receivable from all VAT Control Account.

Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. The useful lives is reviewed on an annual basis.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses including land and buildings.

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.2 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Roads and paving	30
Buildings	30
Pedestrian Malls	30
Electricity	20 - 80
Furniture and fixtures	7 - 10
Motor vehicles	
• Specialist vehicles	10
• Other vehicles	5
Office equipment	3 - 7
Watercraft	15
Recreational facilities	20 - 30
Bins and containers	5
Specialised and plant and equipment	10 - 15
Other items of plant and machinery	2 - 5
Landfill sites	20

1.3 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.3 Intangible assets (continued)

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Computer software, other	2 - 5years
--------------------------	------------

1.4 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.4 Financial instruments (continued)

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.4 Financial instruments (continued)

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

Assets are carried at amortised cost.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. However, if the lease term has expired the actual amount incurred is recognised as an expense and commitments will be one years worth of expenditure estimated from the current information available.

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.6 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.7 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.8 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.8 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.8 Provisions and contingencies (continued)

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.9 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

1.10 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.10 Revenue from non-exchange transactions (continued)

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.11 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.12 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.13 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.14 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.15 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.17 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.18 Presentation of currency

These annual financial statements are presented in South African Rand.

1.19 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.20 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.21 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2013 to 30/06/2014.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.22 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.23 Going concern assumption

These annual financial statement have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand 2014 2013

2. Property, plant and equipment

	2014			Restated 2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	24,340,400	-	24,340,400	24,340,400	-	24,340,400
Buildings	48,179,080	(5,858,131)	42,320,949	41,274,489	(4,446,985)	36,827,504
Furniture and fixtures	302,393	(182,435)	119,958	332,588	(167,995)	164,593
Motor vehicles	2,847,495	(1,610,603)	1,236,892	2,847,495	(1,357,343)	1,490,152
Office equipment	1,074,080	(804,566)	269,514	1,059,183	(710,175)	349,008
IT equipment	923,079	(565,953)	357,126	830,912	(492,823)	338,089
Infrastructure	27,316,336	(6,714,974)	20,601,362	27,316,336	(5,510,032)	21,806,304
Community	8,000	(3,201)	4,799	8,000	(2,934)	5,066
Assets under construction	17,044,847	-	17,044,847	15,353,906	-	15,353,906
Total	122,035,710	(15,739,863)	106,295,847	113,363,309	(12,688,287)	100,675,022

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand

2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Newly identified assets	Disposals / Assets written off	Transfers	Depreciation	Impairment loss	Total
Land	24,340,400	-	-	-	-	-	-	24,340,400
Buildings	36,827,504	280,031	-	-	6,624,561	(1,411,147)	-	42,320,949
Furniture and fixtures	164,593	6,550	1,459	(6,854)	-	(45,790)	-	119,958
Motor vehicles	1,490,152	-	-	-	-	(253,260)	-	1,236,892
Office equipment	349,008	15,696	30,097	(6,737)	-	(118,550)	-	269,514
IT equipment	338,089	120,978	21,020	(2,826)	-	(120,012)	(123)	357,126
Infrastructure	21,806,304	-	-	-	-	(1,204,942)	-	20,601,362
Community	5,066	-	-	-	-	(267)	-	4,799
Assets under construction	15,353,906	8,315,502	-	-	(6,624,561)	-	-	17,044,847
	100,675,022	8,738,757	52,576	(16,417)	-	(3,153,968)	(123)	106,295,847

Reconciliation of property, plant and equipment - 2013

	Restated opening balance	Additions	Disposals / Assets written off	Transfers	Depreciation	Impairment loss	Total
Land	24,340,400	-	-	-	-	-	24,340,400
Buildings	35,804,617	255,803	-	2,076,550	(1,309,466)	-	36,827,504
Furniture and fixtures	323,792	1,754	(83,821)	-	(72,938)	(4,194)	164,593
Motor vehicles	415,762	1,363,411	-	-	(289,021)	-	1,490,152
Office equipment	614,895	17,674	(93,814)	-	(168,649)	(21,098)	349,008
IT equipment	583,481	98,366	(135,778)	-	(163,413)	(44,567)	338,089
Infrastructure	22,945,404	-	-	-	(1,139,100)	-	21,806,304
Community	5,333	-	-	-	(267)	-	5,066
Assets under construction	8,473,296	8,957,160	-	(2,076,550)	-	-	15,353,906
	93,506,980	10,694,168	(313,413)	-	(3,142,854)	(69,859)	100,675,022

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

3. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	530,875	(440,452)	90,423	533,599	(360,100)	173,499

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Disposals / Assets written off	Amortisation	Total
Computer software, other	173,499	5,100	(594)	(87,582)	90,423

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Disposals / Assets written off	Amortisation	Total
Computer software, other	313,514	72,554	(122,423)	(90,146)	173,499

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Receivables from exchange transactions

Consumer debtors - Rentals	7,750	271,161
Prepaid expenses	54,687	130,594
Sundry debtors	28,316	17,592
	90,753	419,347

5. Receivables from non-exchange transactions

Fines	4,540,689	-
-------	-----------	---

Reconciliation of provision for impairment of receivables from non-exchange transactions

Provision for impairment	4,540,689	-
--------------------------	-----------	---

6. VAT receivable

VAT	889,504	1,310,394
-----	---------	-----------

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
7. Consumer debtors		
Gross balances		
Consumer debtors	15,207,978	11,427,973
Less: Allowance for impairment		
Consumer debtors	(5,359,653)	(4,218,058)
Net balance		
Consumer debtors	9,848,325	7,209,915
Summary of debtors by customer classification		
Consumers and place of worship		
Current (0 -30 days)	219,901	301,649
31 - 60 days	213,656	174,458
61 - 90 days	201,765	165,260
91 - 120 days	199,586	213,235
121 - 150 days	126,181	105,635
> 151 days	6,126,145	4,445,360
	7,087,234	5,405,597
Less: Allowance for impairment	(3,547,912)	(2,423,430)
	3,539,322	2,982,167
Agriculture and Commercial		
Current (0 -30 days)	499,870	604,512
31 - 60 days	350,317	227,064
61 - 90 days	289,564	196,321
91 - 120 days	272,201	223,988
121 - 150 days	205,733	139,154
> 151 days	4,861,741	3,127,955
	6,479,426	4,518,994
Less: Allowance for impairment	(1,811,741)	(1,794,629)
	4,667,685	2,724,365
National and provincial government		
Current (0 -30 days)	39,271	63,186
31 - 60 days	62,588	31,028
61 - 90 days	58,326	30,687
91 - 120 days	56,031	30,794
121 - 150 days	47,933	30,316
> 151 days	1,377,166	1,317,373
	1,641,315	1,503,384
Total		
Current (0 -30 days)	759,042	969,347
31 - 60 days	626,561	432,550
61 - 90 days	549,656	392,267
91 - 120 days	527,819	468,017
121 - 365 days	279,846	275,104
> 365 days	12,465,053	8,890,688
	15,207,977	11,427,973
Less: Allowance for impairment	(5,359,652)	(4,218,058)
	9,848,325	7,209,915

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

7. Consumer debtors (continued)

Reconciliation of allowance for impairment

Balance at beginning of the year	(4,218,058)	(1,969,277)
Contributions to allowance	(1,141,595)	(2,248,781)
	(5,359,653)	(4,218,058)

8. Cash, cash equivalents and overdraft

Cash and cash equivalents consist of:

Cash on hand	1,990	-
Primary bank account	-	6,403
Call account	332,239	15,723
Other bank balances	170,037	23,189
Short Term Investment	53,828	547,558
Bank overdraft	(1,912,628)	-
	(1,354,534)	592,873
Current assets	558,094	592,873
Current liabilities	(1,912,628)	-
	(1,354,534)	592,873

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
Cash on hand	1,990	-	689	1,990	-	689
First National Bank (Primary bank account) - 62022340385	(1,912,628)	6,403	72,096	(1,912,628)	6,403	72,096
First National Bank (Primary bank account) - 62075347396	170,037	14,199	132,421	170,037	14,199	132,421
First National Bank (Primary bank account) - 62214360068	332,239	15,723	153,380	332,239	15,723	153,380
First National Bank (Primary bank account) - 62191984949	-	345	48,890	-	345	48,890
First National Bank (Primary bank account) - 62196695533	-	4,673	313,296	-	4,673	313,296
First National Bank (Primary bank account) - 62174958276	-	3,972	30,549	-	3,972	30,549
ABSA Bank (Short Term Investment) - 9109586760	53,828	547,558	637,864	53,828	547,558	637,864
Total	(1,354,534)	592,873	1,389,185	(1,354,534)	592,873	1,389,185

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
9. Finance lease obligation		
Minimum lease payments due		
- within one year	548,826	435,131
- in second to fifth year inclusive	244,076	792,155
Present value of minimum lease payments	792,902	1,227,286
Present value of minimum lease payments due		
- within one year	548,826	435,131
- in second to fifth year inclusive	244,076	792,155
	792,902	1,227,286
Non-current liabilities	244,076	792,155
Current liabilities	548,826	435,131
	792,902	1,227,286

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 11% (2013: 10%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

MIG Grants	1,406,944	-
Integrated Development Plan Grant	142,964	-
	1,549,908	-

11. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Land fill site Provision	4,366,751	371,174	4,737,925

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Land fill site Provision	4,024,655	342,096	4,366,751

The provision for rehabilitation of landfill site relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at 10.5%, over an average period of 20 years.

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
12. Payables from exchange transactions		
Other creditors	850,660	523,573
Provision for leave pay	1,223,490	825,160
Retention	1,190,808	890,511
Site deposit	2,513,925	2,533,960
Trade payables	4,014,413	6,423,275
Unallocated deposits	1,118	1,118
13th cheque accrual	304,409	-
	10,098,823	11,197,597
13. Payables from non-exchange transactions		
Deposits received	3,529	5,439
Debtors paid in advance	209,586	72,434
	213,115	77,873

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
14. Revenue		
Service charges	1,368,236	1,077,816
Rental of facilities and equipment	70,921	79,056
Other income	147,886	197,764
Interest received - investment	376,773	178,241
Property rates	9,109,533	6,525,214
Property rates - penalties imposed	865,823	846,414
Government grants and subsidies	30,020,092	30,163,024
Fines	9,963,275	29,900
	51,922,539	39,097,429
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	1,368,236	1,077,816
Rental of facilities and equipment	70,921	79,056
Other income	147,886	197,764
Interest received - investment	376,773	178,241
	1,963,816	1,532,877
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	9,109,533	6,525,214
Property rates - penalties imposed	865,823	846,414
Transfer revenue		
Government grants and subsidies	30,020,092	30,163,024
Fines	9,963,275	29,900
	49,958,723	37,564,552
15. Property rates		
Rates received		
Property rates	9,109,533	6,525,214
	9,109,533	6,525,214
Property rates - penalties imposed	865,823	846,414
	9,975,356	7,371,628
16. Service charges		
Refuse removal	1,368,236	1,077,816

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
17. Government grants and subsidies		
Operating grants		
Equitable share	17,275,000	14,141,000
Financial Management Grant	1,650,000	1,500,000
Municipal Systems Improvement Grant	890,000	800,000
Sport and Recreation Grant	-	254,770
Library Grant	630,000	600,000
INEG (Electrification Program Grant)	-	2,700,440
Intergrated Development Plan Grant	57,036	-
	<u>20,502,036</u>	<u>19,996,210</u>
Capital grants		
Municipal Infrastructure Grant	9,518,056	10,166,814
	<u>9,518,056</u>	<u>10,166,814</u>
	<u>30,020,092</u>	<u>30,163,024</u>
Municipal Infrastructure Grant		
Balance unspent at beginning of year	-	693,814
Current-year receipts	10,925,000	11,202,000
Conditions met - transferred to revenue	(9,518,056)	(10,166,814)
Transfer to Equitable Share	-	(1,729,000)
	<u>1,406,944</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 10).		
Financial Management Grant		
Current-year receipts	1,650,000	1,500,000
Conditions met - transferred to revenue	(1,650,000)	(1,500,000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 10).		
Municipal Systems Improvement Grant		
Current-year receipts	890,000	800,000
Conditions met - transferred to revenue	(890,000)	(800,000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 10).		
Municipal Assistance Programme Grant		
Conditions still to be met - remain liabilities (see note 10).		

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

17. Government grants and subsidies (continued)

Sports and Recreation Grant

Balance unspent at beginning of year	-	104,770
Current-year receipts	-	150,000
Conditions met - transferred to revenue	-	(254,770)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 10).

Library Grant

Current-year receipts	630,000	600,000
Conditions met - transferred to revenue	(630,000)	(600,000)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 10).

INEG - Electrification Programme Grant

Balance unspent at beginning of year	-	2,700,440
Conditions met - transferred to revenue	-	(2,700,440)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 10).

Integrated Development Plan Grant

Current-year receipts	200,000	-
Conditions met - transferred to revenue	(57,036)	-
	<u>142,964</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 10).

Provide explanations of conditions still to be met and other relevant information.

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
18. General expenses		
Publicity	253,312	239,954
Audit remuneration	1,592,735	1,478,038
Bank charges	69,923	37,219
Consumables	22,751	11,710
Upliftment programme	10,790	75,594
Audit committee	224,949	160,494
Entertainment	37,270	87,431
Insurance	104,185	11,217
Legal fees	33,590	102,572
Computer expenses	424,159	337,093
Plotter maps	-	20,812
Lease rentals on operating lease	923,797	1,554,171
Scrapping loss	17,011	435,837
Disaster management	984,362	984,362
Fuel and oil	374,135	312,644
Courier and postage	164,422	205,799
Group life	372,660	380,461
License fees - vehicles	61,972	106,898
Security	2,315,801	1,844,215
Sport and recreation	4,500	49,321
Subscriptions and membership fees	526	450,000
Telephone and fax	308,037	340,392
Training	320,297	494,116
Local travel and subsistence	712,533	709,567
Minor assets	40,536	13,562
Electricity	333,648	321,322
Uniforms	22,657	9,055
Events and social projects	214,899	187,972
Bursaries	35,354	15,000
Council support	4,000	7,500
Consultant fees	636,265	-
Other expenses	2,408,672	92,152
	13,029,748	11,076,480

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
19. Employee related costs		
Basic	7,406,699	4,829,395
Bonus	449,667	327,863
Medical aid - company contributions	1,449,513	836,096
UIF	70,443	56,101
SDL	103,070	82,578
Leave pay provision charge	103,406	466,956
Overtime payments	-	153,383
	9,582,798	6,752,372
Remuneration of municipal manager		
Annual Remuneration	679,833	613,792
Car Allowance	120,000	120,000
Contributions to UIF, Medical and Pension Funds	9,591	8,859
	809,424	742,651
Remuneration of chief financial officer		
Annual Remuneration	549,794	507,364
Car Allowance	170,056	145,827
Contributions to UIF, Medical and Pension Funds	8,643	8,239
	728,493	661,430
Remuneration of planning and technical director		
Annual Remuneration	-	366,778
Car Allowance	-	121,310
Contributions to UIF, Medical and Pension Funds	-	6,359
	-	494,447
Remuneration of corporate services director		
Annual Remuneration	719,850	647,191
Car Allowance	-	6,000
Contributions to UIF, Medical and Pension Funds	8,983	8,430
	728,833	661,621
Remuneration of director community services		
Annual Remuneration	531,794	357,982
Car Allowance	188,056	137,327
Contributions to UIF, Medical and Pension Funds	8,643	6,044
	728,493	501,353
Total employee related costs	12,273,632	9,813,874

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
20. Remuneration of councillors		
Councillors	1,032,471	881,297
Councillors' pension contribution	177,897	140,689
Other	497,104	394,385
	1,707,472	1,416,371
In-kind benefits		
The Mayor is provided with an office and secretarial support at the cost of the Council.		
The Mayor has use of a Council owned vehicle for official duties.		
The Mayor has two full-time bodyguards.		
21. Debt impairment		
Debt impairment	6,387,641	2,248,782
22. Interest earned		
Interest revenue		
External investments	376,773	178,241
23. Depreciation and amortisation		
Property, plant and equipment	3,153,968	3,142,853
Intangible assets	87,582	90,146
	3,241,550	3,232,999
24. Finance costs		
Interest paid	112,864	62,563
Discounting factor on provisions	496,102	342,096
	608,966	404,659
25. Auditors' remuneration		
Fees	1,592,735	1,478,038
26. Contracted services		
Other Contractors	881,889	902,843
27. Conditional Grants (operational)		
Other subsidies		
Library Grant expenditure	399,242	300,103
Municipal System Improvement Grant	885,514	776,011
Financial Management Grant	1,835,638	789,665
Sport and Recreation expenditure	166,603	139,990
INEG (Electrification Programme Grant)	570,175	2,368,807
	3,857,172	4,374,576

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
28. Cash generated from operations		
Surplus	9,496,788	5,388,355
Adjustments for:		
Depreciation and amortisation	3,241,550	3,232,999
Finance costs - Finance leases	608,966	404,659
Impairment loss	123	69,859
Movements in provisions	371,174	342,096
Investment income	(376,773)	(178,240)
Other non-cash items	(232,194)	(226,415)
Scrapping loss	17,011	435,836
Receivables from exchange transactions	328,594	-
Other receivables from non-exchange transactions	(4,540,689)	-
Consumer debtors	(2,638,410)	(843,942)
Payables from exchange transactions	(1,098,770)	3,172,260
VAT	420,890	444,681
Taxes and transfers payable (non exchange)	135,242	-
	5,733,502	12,242,148
29. Commitments		
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	661,879	594,565
- in second to fifth year inclusive	-	661,879
	661,879	1,256,444

Operating lease payments represent rentals payable by the municipality for certain of its photocopying machines. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable. The lease payments are recognised as an expense in the statement of financial performance over the lease term on a straight-line basis.

30. Related parties

There were no related party transaction during the current year.

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

31. Prior period errors

Adjustments were made for the following reasons:

- Property, plant and equipment was adjusted for the newly identified assets

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Property, plant and equipment	(2,277)
Payables from exchange transactions	(70,100)

Statement of Financial Performance

Depreciation	2,277
--------------	-------

32. Comparative figures

Budget information in accordance with GRAP 1 and 24, has been provided in the statement of appropriation to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

The effects of the reclassification are as follows:

Property, plant equipment

Previously disclosure	100,677,299
Correction of depreciation	(2,277)
Restated balance	<u>100,675,022</u>

Payables from exchange transactions

Previous disclosure	11,345,570
Correction of accrued expense	(70,100)
Reclassification - payables from non-exchange transactions	(77,875)
Restated balance	<u>11,197,597</u>

Payables from non-exchange transactions

Previous disclosure	-
Reclassification - payables from exchange transactions	77,875
Restated balance	<u>77,875</u>

Current provision

Previous disclosure	371,174
Reclassification from non-correct provision	(371,174)
Restated balance	<u>-</u>

Non-current provision

Previous disclosure	3,995,577
Reclassification from current provision	371,174
Restated balance	<u>4,366,751</u>

Depreciation

Previous disclosure	3,230,723
Accumulated depreciation	2,276
Restated balance	<u>3,232,999</u>

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

33. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

34. Going concern

The Municipality will be financially viable in the 2014/15 financial year. Unspent conditional Grants will be banked on a separate bank account as per the provision of Division Of Revenue Act. In the adjusted budget the Municipality will make a provision for previous years unspent provisional grants.

35. Events after the reporting date

There were no reportable events after the reporting date.

36. Unauthorised expenditure

Opening balance	1,711,806	5,056,633
Unspent conditional grant not cash back	1,217,669	9,235,770
Over expenditure in current year	4,600,751	-
Condoned by Council	(7,530,226)	(12,580,597)
	<u>-</u>	<u>1,711,806</u>

37. Fruitless and wasteful expenditure

Opening balance	523,684	109,593
Interest paid	178,122	141,921
Gestener and Canon	292,177	385,590
Condoned by Council	(993,983)	(113,420)
	<u>-</u>	<u>523,684</u>

Fruitless and wasteful expenditure incurred in related to the follow:

- Interest and penalties on late payments.
- Payment to Gestetner and Canon for machines under operating lease which are out of order.

38. Irregular expenditure

Opening balance	180,200	3,301,791
Suppliers in the services of state	-	34,850
Expired contracts - Current year	48,120	145,350
No contract	41,464	-
No formal SCM	59,079	-
No formal quotation	40,430	-
Less: Amounts condoned	(369,293)	(3,301,791)
	<u>-</u>	<u>180,200</u>

The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
39. Capital Commitments		
Approved but not yet contracted for		
- Infrastructure	<u>11,156,000</u>	<u>10,925,000</u>
The above capital expenditure will be financed from:		
- Government Grants	<u>11,156,000</u>	<u>10,925,000</u>
40. MFMA Compulsory Disclosure		
In terms of MFMA section 125(1)©		
SARS amount due		543,183
Medical aid contributions due		82,125
Pension contributions due		185,093
Auditor general amount due		775,557
SALGA contributions due		450,600